[SCG] - SCANA Corporation First Quarter 2014 Earnings Conference Call
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Officers
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Jimmy Addison; SCANA Corporation; CFO
Steve Byrne; SCANA Corporation; COO, SCE&G

Analysts
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Michael Weinstein; UBS; Analyst
Travis Miller; Morningstar; Analyst
Stephen Byrd; Morgan Stanley; Analyst
Ashar Khan; Visium; Analyst
Andrew Weisel; Macquarie Capital; Analyst
Michael Lapides; Goldman Sachs; Analyst
Paul Patterson; Glenrock Associates; Analyst
Neil Kalton; Wells Fargo Securities; Analyst
Dan Jenkins; State of Wisconsin Investment Board; Analyst
David Paz; Wolfe Research; Analyst

Presentation

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by. I will be your conference facilitator today. At this time I would like to welcome everyone to the SCANA Corporation conference call.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer period. (Operator Instructions)

As a reminder, this conference call is being recorded on Thursday, April 24th, 2014. Anyone who does not consent to the taping may drop off the line.

At this time, I would like to turn the call over to Byron Hinson, Director of Financial Planning and Investor Relations.

Byron Hinson: Thank you, and welcome to our earnings conference call, including those who are joining us on the webcast. As you know, earlier today, we announced financial results for the first quarter of 2014.

Joining us on the call today are Jimmy Addison, SCANA's Chief Financial Officer, and Steve Byrne, Chief Operating Officer for SCE&G. During the call, Jimmy will provide an overview of our financial results, economic development in our service territory, and regulatory activity. Additionally, Steve will provide an update on our new nuclear project. After our comments, we will respond to your questions.

The slides and the earnings release referred to in this call are available at SCANA.com. Additionally, we post information related to our new nuclear project directly on our website at SCANA.com. On SCANA's home page, there's a yellow box containing a link to the new nuclear section of the website that contains a link to project news and updates.

It is possible that some of the information that we will be posting from time to time, may be deemed material information that has not otherwise become public. In connection with this process, we have discontinued our prior practice of furnishing on form 8K, the quarterly reports that SCE&G submits to the Public Service Commission of South Carolina and the South Carolina Office of Regulatory Staff, for SCE&G's new nuclear project. Instead, the Company now posts copies of these reports on the SCANA website.

In addition, I want to remind you that you can sign up under the Investor Relations section of SCANA.com for e-mail alerts for financial press releases and operational announcements. You can now sign up for e-mail alerts when there is a posting on the new nuclear yellow box.

Finally, before I turn the call over to Jimmy, I would like to remind you that certain statements that may be made during today's call are considered forward-looking statements and are subject to a number of risks and uncertainties as shown on slide 2. The Company does not recognize an obligation to update any forward-looking statements.

Additionally, we may disclose certain non-GAAP measures during this presentation, and the required reg-G information can be found on the Investor Relations section of our website. I'll now turn the call over to Jimmy.

Jimmy Addison: Thanks, Byron, and thank you all for joining us today. I'll begin our earnings discussion on slide 3. Basic earnings in the first quarter of 2014 were $1.37 per share compared to $1.13 per share in the same quarter of 2013. Our earnings in the first quarter are reflective of ending the electric weather normalization pilot in December 2013, as mentioned on the year-end call.

The Company's financials will now be impacted by abnormal weather in our electric business. Accordingly, the improved results in the first quarter are attributable to higher electric margins due primarily to the abnormally cold winter weather, a Base Load Review Act rate increase, and customer growth, along with higher gas margins. These higher margins were partially offset by expected increases in operations and maintenance expenses and CapEx-related items, including depreciation, property taxes, and share dilution.

Now on slide 4, I'd like to briefly review results for our principal lines of business. South Carolina Electric and Gas Company's first quarter 2014 earnings, denoted in blue, were up $0.21 compared to 2013, driven largely by higher electric margins due primarily to a benefit of $0.10 of abnormal weather, a Base Load Review Act rate increase, and customer growth, as well as higher gas margins. These increases were partially offset by increases in O&M expenses, as well as expenses related to our capital program, including property taxes, depreciation, and share dilution.

PSNC's earnings for the first quarter 2014, shown in red, were $0.24 per share consistent with the first quarter of 2013. Increased margins from customer growth were offset by higher depreciation and share dilution.

SCANA Energy, our retail and natural gas marketing business in Georgia, in green, reported first quarter 2014 earnings of $0.16 per share, consistent with our first quarter of 2013.

A benefit of $0.05 of incremental volume due to abnormally cold weather during the quarter was offset by higher commodity prices experienced in serving the incremental volumes and price competition.

SCANA's corporate and other businesses reported earnings of $0.08 per share in the first quarter of 2014, compared to $0.05 per share in the prior year.

I would like to touch on economic trends in our service territory on slide 5. We continue to see new business growth and expansion of existing businesses. So far in 2014, companies have announced plans to invest approximately $160 million with the expectations of creating approximately 1,200 jobs in our Carolinas territories.

At the bottom of the slide, you can see that the national unemployment rate, along with the rates for our three states where SCANA has a presence, and the SCE&G Electric territory. While all these states continue to show marked improvement, the Carolinas are benefiting greatly from the industrial expansion. South Carolina's unemployment rate is now at 5.5%, and the rate in SCE&G's electric territory is estimated at 4.6%.

Slide 6 is an interesting slide I came across recently related to the real estate investment community. Based on their projections, over the next 20 years, 43% of the US population growth will be concentrated in 10 strategic growth corridors. As you can see in the illustration, a couple of those main corridors run through the Carolinas and Georgia passing through the geographic footprint of all of our major subsidiaries.

Slide 7 presents customer growth and electric sales. On the top of the slide are the customer growth rates for each of our regulated businesses. We continue to see strong customer growth in our businesses and in the region. SCE&G's electric and gas growth rates for the 12 months ended March 31, are 1.3% and 2.4%, respectively.

Our regulated gas business in North Carolina added customers at a 2.3% rate. The bottom table outlines our actual and weather-normalized kilowatt-hour sales for the quarter and 12 months ended March 31st, 2014. Overall, weather-normalized total retail sales were up 3.6% for the first quarter and 0.5 a percent on a 12-month-ended basis.

Now, please turn to slide 8, which recaps our regulatory rate base and returns. The pie chart on the left presents the components of our regulated rate base of approximately $8.3 billion. As denoted in two shades of blue, approximately 85% of this rate base is related to the electric business.

In the block on the top right, you will see SCE&G's base electric business, in which we're allowed a 10.25% return on equity. The earned return for the 12 months ended March 31st, 2014, in the electric business is approximately 10.2%, well within our stated goal of earning a return of 9% or higher, to prevent the need for non-BLRA-related base rate increases during the peak nuclear construction years. We're very pleased with the execution of our strategy.

Continuing down the page on our new nuclear business, we're allowed an 11% return on equity. In November of last year, the South Carolina PFC approved our request for revised rates under the BLRA, which added incremental CWIP of approximately $570 million to our rate base, and increased rates just under 2.9%. As Steve will discuss shortly, we will be filing our new request for revised rates in May.

Our regulated gas businesses in the Carolinas continue to perform well. We're allowed a return on equity of 10.6% and 10.25% in North and South Carolina, respectively, and we continue to operate these businesses close to those returns.

Along the bottom of the page is our regulatory schedule exclusive of BLRA filings. These items are fairly routine annual filings.

Slide 9 presents our CapEx forecast. The CapEx [at] new nuclear reflects Westinghouse and CB&I's projected cash flow estimates as adjusted by the Company, supporting the current in-service ranges for units 2 and 3. These estimates provide a preliminary high-level estimate of the cash flows.

At the bottom is our anticipated incremental CWIP from July 1 through June 30, for each period on which the BLRA increase is calculated.

Slide 10 presents the estimated net change to the cash flows and incremental new nuclear CWIP. The incremental new nuclear CWIP is lower in 2014, than our previous estimate, driven by the delay in achieving certain construction milestones during the 12-month period. An example of a milestone delay is CA-20, which Steve will discuss in a few minutes.

Now please turn to slide 11 to review our estimated financing plan through 2018. This slide is consistent with the forecast from our last call.

Now on slide 12, we're reaffirming our earnings guidance of $3.45 to $3.65 per basic earnings per share, along with our internal target of $3.55 per share. Our long-term outlook remains unchanged, as we plan to deliver 3% to 6% earnings growth over the next 3- to 5-year period.

I'll now turn the call over to Steve to provide an update on our nuclear project.

Steve Byrne: Thanks, Jimmy. Please turn to slide 13. As we have stated before, the Company's current construction schedule indicates the in-service range for unit 2 is between the fourth quarter of 2017 and the first quarter of 2018. This date is still within the Public Service Commission's 18-month schedule contingency. The in-service date for unit 3 will be roughly 12 months after unit 2.

As the company noted in its last BLRA filing, the Consortium is currently re-base lining the unit 2 and unit 3 Consortium schedules to incorporate a more detailed evaluation of the engineering and procurement activities, and to provide a detailed reassessment of the impact of the revised units 2 and 3 schedules on engineering and design resource allocations procurement schedules, construction work efficiencies, and other items.

Although we do not yet have the re-baseline schedule, we believe, based on discussions with the Consortium, that the in-service dates for the new units will be within the 18-month PFC-allowed construction contingency.

I'll now provide a brief update to the on hook dates for some of the structural modules. As I previously mentioned, the on hook date is when fabrication of an assembled module at our V.C. Summer site will allow it to be placed on the hook of the heavy lift derrick.

Module CA-20, seen on slide 14, is an auxiliary building module that will be located outside and adjacent to the containment vessel. Finishing touches are taking place on this module inside of the module assembly building and it is scheduled for on hook date in May. This on hook date was amended from Q1 2014 to May of 2014, earlier this month due to inclement weather from two ice storms, which closed the site for approximately a week, Chicago Bridge and Iron performance and production-related delays in the aligning and welding of sub-modules, and the incorporation of lessons learned from setting the same module at the Vogtle site a few weeks earlier.

Module CA-01 on slide 15, is the steam generator and refueling canal module that will be located inside the containment vessel. Here you can see a photo provided by Westinghouse of CA-01 at one of the China sites.

We are amending our anticipated on hook date for this module from Q3 of 2014, to Q3 or Q4 of 2014. As with CA-20, we have modified the date to take this into account -- or to take into account the lost time due to the CB&I self-imposed stop work order at their Lake Charles facility that has now been lifted, and CB&I performance and production-related experience.

Sub-modules for CA-01 have started to arrive, and on-site fabrication of this module should begin shortly.

Module CA-03, on slide 16, is the southwest wall of in reactor water storage located inside the containment vessel. Here you can see a photo provided by Westinghouse of a portion of this module at a similar AP1000 plant being lifted for placement.

The Consortium had moved fabrication of this module to facility in Florida from a facility in North Charleston, South Carolina. This module has an anticipated on hook date of Q4 of 2014.

Unit 2 containment vessel ring 2, shown on slide 17, is the second ring of the containment vessel. This structure has a scheduled on hook date of Q4 of 2014. The first ring of unit 2 containment vessel, which I'll show you a picture of shortly, is scheduled to be placed during the second quarter of 2014.

On slide 18, you can see a summary that outlines the on hook dates for these four modules, as well as their current status.

I'd now like to discuss some of the recent activities at the site. Slide 19 presents an aerial view of the new nuclear site. In the center of the picture is the MAB, or module assembly building. Below the MAB, you can see unit 2, and to the right is unit 3, as well as the heavy lift derrick.

We are making progress on the low-profile cooling towers that you can see on the left side of this picture. I'll discuss the site in more detail shortly, but here you can get a feel for the layout of the site and you can see that things are really starting to take shape.

On slide 20, you see a picture of the unit 2 nuclear island. As previously mentioned, during 2013, we completed the over 50-hour continuous pour of the nuclear island base mat, also referred to as first nuclear concrete. Then, using the heavy lift derrick, we set the 500-ton CR-10 module on the base mat, as well as the containment vessel bottom head on the CR-10 module.

Two of the three courses of concrete that will allow setting of the first ring section have been placed below the bottom head and around CR-10. The containment vessel will house numerous reactor system components such as the reactor vessel, piping, steam generators, and the pressurizer.

As you can see on the slide, work continues on the unit 2 nuclear island, with the walls taking shape, as well as components being placed in the auxiliary building and inside the containment vessel.

On slide 21 along the top, you can see pictures showing the successful pouring of nuclear island base mat for unit 3, which took place in November. This continuous pour took only 43 hours due to lessons learned on the unit 2 pour.

On the bottom left of the slide, you can see the finished product of that pour. Again, this base mat provides a foundation for the containment vessel, shield building, and auxiliary building that make up the nuclear island for unit 3.

Construction of CR-10 module on the unit 3 nuclear island base mat that you can see on the bottom right of the slide, is now complete.

On the top left of slide 22, you can see a picture of the unit 3 containment vessel bottom head. Similar to unit 2, this bottom head will be placed on the nuclear island on top of the CR-10 module for unit 3.

On the top right of the same slide, you'll see some of the containment vessel rings. In the front left, you can see the beginnings of the first ring for unit 3. Behind it, on the back left, you can see the second ring for unit 2, which, as mentioned earlier, is scheduled to be on the hook in fourth quarter of 2014. On the back right, you can see the first ring for unit 2.

On the bottom left, you can see cooling tower 2 alpha and the unit 2 circulating water pump house excavation. As mentioned during our last call, both cooling towers, 2 alpha and 3 alpha are now structurally complete. All four of the low-profile forced-draft cooling towers continue to progress as anticipated.

The circulating water system pump house is used to move water from the cooling towers back to the condenser in the plant. On the bottom right, you'll see a picture from inside the new water treatment facility. This facility will provide the site with potable water and filtered water.

On slide 23, you can see a schematic of the turbine building. It illustrates how various turbine building modules will look when completed. The modules that are highlighted in green have been placed in their final locations, with work continuing to progress for modules CH-82 and CH-81 Charlie.

On slide 24, you can see a picture of the unit 2 turbine building. Comparing the schematic from the previous slide, you can see all of the previously mentioned modules placed on the turbine building base mat, as well as the progress being made on CH-82.

On slide 25, you will see a few of the components that have arrived on site. On the top left, you can see a picture of the unit 2 reactor vessel. This vessel's a thick, metal clad with stainless steel and houses the fuel assemblies.

On the top right, you'll see the unit 2 auxiliary transformer. This transformer provides power for the unit 2 station loads. On the bottom left, you'll see one of two moisture separator re-heaters being lifted with the heavy lift derrick. The moisture separator re-heater takes steam coming out of the high-pressure turbine and super heats the steam before it enters the low-pressure turbines to ensure that it's all steam and no water.

On the bottom right, you'll see the unit diesel generators. These generators are non-safety related components that provide backup power for unit 2.

On slide 26, you'll see the new nuclear CapEx over the life of the construction. This chart shows the CWIP during the years 2008 to 2018, and reflects our preliminary estimates that are expected to be updated and filed in the first quarter BLRA filing in mid-May.

As you can see, the next several years are considered the peak nuclear construction period. The green line represents the related projected customer rate increases under the Base Rate Review Act, and are associated with the right-hand axis.

As we stated during our last call, the incremental 5% future acquisition of the new nuclear project from Santee Cooper will not affect these projected BLRA increases.

Please now turn to slide 27. We have two BLRA filings coming up in May. As mentioned earlier, in mid-May, we filed our quarterly status update with the Public Service Commission, and on May 30th, we will make our annual request for revised rates under the BLRA. Both of these filings will be made available for review in the new nuclear development yellow box in the Investor Relations Section of SCANA.com.

On slide 28, you'll see a breakout of the total new nuclear project costs. On the far right, you can see our preliminary estimate of project costs as of the first quarter of 2014. Project costs are down approximately $623 million from the original approval received from the Public Service Commission of South Carolina. As you can see, this change is largely attributable to lower escalation.

On slide 29, you'll see a picture of unit 1 at V.C. Summer Station. On April 4th, we took unit 1 off line to begin a scheduled refueling outage. The outages occur at 18-month frequencies, and this is the 21st for V.C. Summer unit 1, which began commercial operation in 1984. Refueling outage allows us to replace about one-third of V.C. Summer's 157 fuel assemblies, perform preventive maintenance work, and make preemptive inspections and repairs.

During this outage, we performed a planned inspection of the reactor vessel head. The reactor vessel head contains a total of 66 penetrations, which are mostly used to maneuver control rods in the reactor. As a result of this inspection, we identified welds for a few of these penetrations that need repair. An extensive robotic inspection of the vessel showed that there was no leakage from these areas as a result of the condition of the welds.

This kind of maintenance is common over the life of a nuclear plant, and the work can be done in parallel with other preplanned plant improvements so that there will be a minimum impact to the outage.

That concludes our prepared remarks. We'll now be glad to respond to any questions you might have.

Questions and Answers

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) We will pause momentarily to assemble our roster. Jim von Riesemann, CRT Capital.

Jim von Riesemann: Before we get into all the nuclear questions, maybe you could help me out with just some basic blocking-and-tackling- type questions. It's really one question with two parts.

So your 2014 EPS guidance range was affirmed at the $3.45 to $3.65. But if I look at the trailing 12 months, you're at $3.65. Now, I know you have BLRA revenues coming in, in 2014. So how -- what keeps you within that stated range for 2014? That's the first part of the question.

The second part is, with -- which I think is actually more important is, with your growth rate also being maintained at the 3% to 6%, and my numbers for 2014 obviously coming up, how should I think about comps going forward? So saying it differently, how will you or will you were hit the 3% to 6% growth rate in 2015, off of a 2014 base, especially if that 2014 base is above the original guidance range?

Jimmy Addison: Yes. Jim, so the first part, I would say, we got, as I said in the earlier comments, our prepared comments, $0.10 of Q1 was weather from the electric business. So that's the first --

Jim von Riesemann: Right.

Jimmy Addison: -- time in three years we've had whether impacting the electric business because we had the pilot weather normalization.

Jim von Riesemann: Right.

Jimmy Addison: So does that $0.10 sustain itself through the end of the calendar, slash, fiscal year? Who knows? It was a cold first quarter. But, frankly, it was about the same as Q1 of 2013. It's just that we had the normalization in for the electric business in 2013.

So it took a quarter to generate that much excess weather in a very unusual winter. Give you an example, we had 17 days in March where the lows were in the 30s. Now, I know I'm not going to get any sympathy from you in New York with those kind of temperatures, but that is very unusual in the southeast with that kind of weather.

Whereas, it took a quarter to generate that excess here, we could easily, if we had a mild July or August, all of that could erode. So it's a little early to start saying is that going to put you over the top end.

And as far as the longer term, as you said, the more important question, we're still comfortable with that 3% to 6% for 2014, based on the 2013 base.

Jim von Riesemann: Okay. Thank you.

Operator: Michael Weinstein, UBS.

Michael Weinstein: Could you talk a little bit more about the non-regulated gas company and the $0.05 offset in each direction and how that was affected by the polar vortex?

Jimmy Addison: Yes. So in that market, SCANA and the broader market, a majority of the customers now are on fixed rates and, of course, we financially, we don't speculate on that, so we financially hedge those customers for the term of their contract based on normal weather.

So when we have colder-than-normal weather, we've got to either provide that additional gas, if you will, from a financial standpoint from the spot market or from storage. And there's only so much you can do out of storage when you have that extreme weather.

So when we bought the additional gas to serve those customers, that eliminated a great deal of the benefit from the actual additional sales.

Michael Weinstein: What drove the additional sales? Is that --

Jimmy Addison: Weather. All weather.

Michael Weinstein: Just -- okay. So normally --

Jimmy Addison: Yes. Yes.

Michael Weinstein: All right. If you didn't --

Jimmy Addison: Yeah. Sorry. I missed the first part of your question.

Michael Weinstein: So essentially, even though you're hedged or even though you got caught, basically, I mean, like everybody else, got caught short with fixed contracts, and in an extreme weather situation, it still wound up being a neutral effect.

Jimmy Addison: Yes, and that's right. And we've had that situation before. And I would say that's a -- I'm sure it could be slightly less. But I can't imagine it being a lot more extreme than that. So in a real very extreme case, we're still on our plan for the year.

So compared to 2013's first quarter, which was a normal weather quarter overall, where this one was abnormally cold, we ended up about the same point.

Michael Weinstein: Right. I guess the thing that confuses me a little bit is that if -- more of a bad thing should be just bad, right? I mean, in other words, increased sales that are you money losing -- money-losing sales because they're unhedged, should have just been negative.

Jimmy Addison: Well, that's only part of our customer base, right. So we've got it -- we, SCANA Energy, as well as the whole market, has another segment of the customers that are variable priced customers that are re-priced each month. So that --

Michael Weinstein: That explains it. Okay.

Jimmy Addison: Right. Right.

Michael Weinstein: Okay. Got you. So the variable was positive, fixed is negative?

Jimmy Addison: That's right.

Michael Weinstein: That's the story. Okay. And also, on the nuclear part, just to ask one question there, just seeing that the overall CapEx level's down negative, I guess about $32 million less. And is the reason for that just lower financing costs going forward because of the delay?

Jimmy Addison: Right. So that's $32 million less just in those first three years that are presented. If you look down on the recap box at the bottom

Michael Weinstein: Yes.

Jimmy Addison: In the top half, we just tied to the three-year 10K disclosures. So at the bottom, though, you see the full project disclosure, and you'll see it's actually slightly a net increase over that period because some of those milestone payments we'll be making later, and, therefore, they incur a little more escalation. So you're only catching part of the picture when -- those first three years.

Michael Weinstein: I see. And that's why the escalation is about $10 million less, or there's a -- like $10 million less under budget than before, right?

Jimmy Addison: That's right.

Michael Weinstein: Okay. All right. Got it. Thank you very much.

Operator: Travis Miller, Morningstar.

Travis Miller: I was wondering, during some of these extreme cold weather events you had, maybe in hours or days, if you saw certain stresses in your system, either on the gas or the power side, and how that might play into your thoughts about investment going forward.

Steve Byrne: Yes. Travis, this is Steve. We did see some stresses on our generating system, I think it was January the 7th. We had -- which was unusual for us. We set a 24-hour energy peak. Generally, we're a summer-peaking utility. But it got cold enough down here, that we actually set our peak, our all-time peak for 24 hours in the wintertime.

So January 7th was a stressor for us. A stressor for a couple reasons. One, we had a couple of generating plants were -- they were out. Giving high loads, all of our neighbors were also stressed, so the power available on the open market wasn't there.

And then, of course, there were operational flow orders that would limit the gas that you could take to power plants coming out of the gulf. And so we had both gas and electric supply issues during some of that cold weather.

The second cold-weather events, we didn't have any problems.

Travis Miller: Okay. More of macro kind of on that idea, would north to south pipeline flow in terms of the gas side, would that have done anything? Would that have alleviated any problems? i.e., is there -- do you guys see value in reversing, essentially, some of those flows?

Steve Byrne: Yes. From our perspective, as long as I could lock down more supply on the pipeline, then it would likely help me. But there wasn't anything to be had on the pipeline, as in the capacity of the pipeline was maxed out.

So we were limited to what we had reserved on firm capacity during those time frames. So what I would need is it's not just the supply, it's a capacity.

Travis Miller: Okay. Great. Thanks a lot. And as you suggested, you're not going to get any sympathy from me in Chicago.

Jimmy Addison: Fair enough.

Travis Miller: Thank you very much.

Operator: Stephen Byrd, Morgan Stanley.

Stephen Byrd: I wanted to check in on coal ash, and it's just been an issue that we think a lot about. Is there any movement in the state as you think about the potential treatment of storage facilities, et cetera? Is that something that's coming up?

Steve Byrne: Well, what we've seen as a result of the Kingston Dam failure back in 2008, and then more recently the Dan River failure, we have seen an increased interest in state regulators, any impoundments we would have, i.e., ash ponds.

Now, we, because of facility retirements, we're down to only two locations that have ash ponds, and we have active plans to retire those. So for us, I think it's a pretty good new story. And we're actually ahead of schedule on emptying out some of the ash from those ponds.

So where we can, we're sending it to beneficial reuse. So it's things like the cement industry, wallboard industry, those kinds of things. So while we've seen increased scrutiny, our plans have stood up to that test.

Stephen Byrd: Okay. Great. And then just over on the solar side of things. I was just curious, the latest in terms of proposed [soil] legislation, how's that going? What's been the sort of range of reaction? And what should we be looking for there?

Steve Byrne: Well, we have worked with other stakeholders in the State, including environmental groups and the other utilities to propose some legislation. We believe the legislation is a good way to enact solar to try to learn some of the lessons from places, particularly on the West Coast and Arizona that have implemented without a good set of ground rules and have run into some problems.

That legislation is not yet out of the legislature in South Carolina. If successful, we believe that we'll be a model for the industry.

That said, we do have active plans to build solar. We're looking at a couple of utility scale solar farms now, in addition to what we already have in our system, which is over 200 solar generators, the larges of which is on the roof of the Boeing facility down in Charleston.

Stephen Byrd: Great. Thank you very much.

Operator: Ashar Khan, Visium.

Ashar Khan: Jimmy, I was looking through -- sorry I don't have this. When you came up with guidance earlier in the first quarter, what growth rate did you assume as part of the midpoint?

Jimmy Addison: Well, the growth for the $3.55?

Ashar Khan: That's correct.

Jimmy Addison: I think that off actual 2013's was like 4.2%, something like that.

Ashar Khan: So you --

Jimmy Addison: Low fours.

Ashar Khan: -- expected -- sorry?

Jimmy Addison: Low 4%, yes.

Ashar Khan: Low 4% growth rate in sales.

Jimmy Addison: No. I'm sorry. I was talking about earnings.

Ashar Khan: No, no. That's what I thought I was not hearing.

Jimmy Addison: Okay. No. In sales, it was actually slightly negative.

Ashar Khan: Okay. So you expected flat sales?

Jimmy Addison: Virtually. We actually had slightly negative that we disclosed on the year-end call. I think it was like 0.2, 0.5 negative. And, obviously, we experienced opposite in Q1, weather-normalized sales back on that chart number 2 there, you'll see what --

Ashar Khan: Yes, that's what I'm trying to -- so when you came up with guidance for 2014, you had a flat sales in the forecast?

Jimmy Addison: Yes, slightly negative.

Ashar Khan: Slightly negative. So then can you tell us based on 1% delta, if sales are higher by 1%, what's that help -- how does that help electric margin?

Jimmy Addison: Yes. I think, Ashar -- I'm going from memory here. I don't have this in front of me. But I think like a 1% change, and that is $0.02 to $0.03 per share.

Ashar Khan: $0.02 to $0.03 per share. So we have now like $0.04 -- 4%, if this continues for the whole year, then it would be like $0.12 positive delta. Is that fair?

Jimmy Addison: That's fair. That's a big if, though. We've got two consecutive quarters now of overall positive weather-normalized usage. But we had three before it that were negative. So I'm very optimistic at this point, but I'm not really ready to call it a trend yet.

Ashar Khan: Okay. Okay.

Jimmy Addison: I am encouraged when you pair that with the unemployment rates that we presented earlier, I'm encouraged by it.

Ashar Khan: Right. I mean, that's what I'm trying to think through, whether what's, kind of what's kind of happening. You have some soft quarters and then things turn around and they become really kind of positive and things, things like that, whether this is sustainable or not sustainable.

Jimmy Addison: Yes, and it's still an open question. But I would say the last three years, we've spent a lot of time talking about economic announcements. And most of those announcements now have translated into payroll and there's folks out working, everything from the anchor being Boeing to the tire expansions to Nephron Pharmaceuticals just down the street from us here opening.

So lots of these things are translating into jobs which are translating into consumer confidence, and I think we're seeing that in our numbers.

Ashar Khan: Okay. Okay, great. I appreciate it. Thank you.

Operator: Andrew Weisel, Macquarie Capital.

Andrew Weisel: My first question is about the nuclear construction. On page 13, you removed the expression we are confident in this range. So just wondering if you could elaborate a bit more on sort of maybe less commitment to the time schedule. And you mentioned that you'll have an updated schedule in the third quarter. What exactly is it that we're waiting for? And can you get any more specific as to what is going to happen in the third quarter?

Steve Byrne: Yes. Andrew, what we're waiting for from the Consortium, which is Chicago Bridge and Iron and Westinghouse, is based on the experience that they've had to date, factoring in the engineering schedule, the procurement schedule, their actual construction experience, worker efficiency, those kind of things. We want a new integrated project schedule. And then we are -- we hope that they will mitigate that to the extent that they can. And sometime, what we've put out is about the third quarter, we ought to have that from the Consortium and have had time to look at it. And that really, from our perspective, will start the clock on our negotiations with them about what is a reasonable schedule and what's not a reasonable schedule.

So while we remain confident in the plus-18 months that our Public Service Commission gives us from a contingency perspective, I don't know exactly today until I get the information, the feedback back from the Consortium, what it is that they're looking at.

Andrew Weisel: Okay. Now, is that -- would you consider that more fine tuning or is it more sort of taking a fresh set of eyes and maybe starting from scratch? Not starting from scratch, but starting -- could there be major revisions, I guess?

Steve Byrne: Yes, I think it's both. I think that the Chicago Bridge and Iron team coming in was new, taking over from Shaw. The folks that hung over from Shaw have now been replaced with CB&I folks.

So our entire team at the site is new and the entire leadership team up through the CB&I, is new to us. So we've got a new team in. Been some turnover in the Westinghouse folks as well. So I would consider some of it refinements and some of actual experiences as they receive sub-modules in, for example, and they have to get to welding them on the site, doing installation as they've done concrete pours, those kinds of things.

They're learning a lot. And so some of the things that they plan on when they originally quote a project is worker efficiency. Now, while I don't know what that worker efficiency was that they quoted us up front, they've obviously got some time under their belts now to figure out whether that's realistic or unrealistic.

And they've also had some time to look at their supply chain. And where components have shown up on time, they'll factor that in. If they've been late, they'll factor that in. And so what I expect to get from them is just a new estimate of completion. And by estimate, I mean a schedule. But again, I still expect it to come within our contingency, but I don't know exactly where it's going to be.

And I'm certain they'll come back and say, but I might be able to improve that if you gave me just a little bit more. So that's what I mean when we say we'll start the discussion or negotiation point at that point, when I get that schedule from them.

Andrew Weisel: Okay. And then as far as communicating that progress with us, is that something, when you say third quarter, would that be like the next quarterly earnings call?

Steve Byrne: The next quarterly earnings call will be a little early for that. It'll probably be the call after that.

Andrew Weisel: Okay, great. Then the only other question I had on the more near-term stuff is, can you remind us the plan for O&Ms for this year and maybe how you might adjust that in response to the strong start to the year?

Jimmy Addison: Yes. So the plan was generally around about a 3% increase in O&M. And I think Q1, we were about 2%. So we're close to that plan. And some of the weather impact in Q1 caused us to delay some of our planned O&M spend. So there are some things that we were able to defer for a short period of time. In fact, with the kind of [shorter month] weather we're having now, a lot of that's going on, from plant maintenance to out on the T&D system.

So I don't see a great deal of change in the O&M plan for the year, at this point.

Andrew Weisel: Great. Thank you very much.

Operator: Michael Lapides, Goldman Sachs.

Michael Lapides: Congrats on a really good quarter. I have a mix of questions, Jimmy, for both you and Steve. One, a financing question. You've reduced, per page 10 your new nuclear CapEx for the year for 2014. But you didn't revise your financing data for 2014. Just curious why knot kind of movie the financing along with kind of the timing of some of the new nuclear.

Jimmy Addison: Yes, very fair question. And the answer really goes back to the one that Steve just answered about this Q3 re-baseline. I've said all along there's no urgency to -- particularly on the equity side. The earliest we needed it was late this year. So if anything, this takes a little pressure off of that.

But really would like to get more information on the whole baseline, that whole discussion with the Consortium before we make any final decisions on that.

Michael Lapides: Got it. And, Steve, any insights at all -- I mean, the Chinese AP1000 project, Sanmen and Haiyang, are a couple years ahead of both Vogtle and V.C. Summer in terms of the construction process.

Just any insights or read-across about whether those facilities in China look like they're going to come on time -- come online on time, on budget, or whether there's any deviation of the project schedules for either of those two.

Steve Byrne: With respect to the budget, I don't think I have any clue. I don't know they disclose budget information for the Chinese projects the same way that we do, so I just don't know.

With respect to the schedule, they've been 2, 2 1/2 years ahead of us. I expect that to hold. So that would say that they're probably similarly delayed to us.

Michael Lapides: Got it. And any -- one last one. And, Jimmy, this is probably for you. In the regulatory items or regulatory highlights you mentioned down at the bottom of page eight, the gas RSA filing, just curious, given the earned to returns in the gas business so far for the rolling 12 months, do you expect to file for gas base rate increases in either jurisdiction?

Jimmy Addison: No, not in this time frame. And frankly, the way the mechanism works in South Carolina, if anything, there's a potential for a small decrease, but not material from a financial standpoint. But I think it's just reflective of the cost control we've had across the whole business as a benefit of the gas business, too, along with the growth. I mean, the customer growth keeps coming with the build in the economy, while we've controlled costs along the way.

Michael Lapides: And finally, we've seen your neighbor, Duke, talk about a need for incremental pipeline capacity into North Carolina. And just curious, whether it's CGTC or at the holding company level, whether an opportunity exists for SCANA to either be an investor in a project like that or in a separate type of project, whether there's even a need for incremental new gas pipeline to flow into your service territory.

Jimmy Addison: Yes, we've had an open season through our interstate company here very recently, and there's a lot of interest. But the way that works is, you go through that and mainly industrials express their preliminary interest, and then you've got to go through a sorting out process where you find out what's really a binding indication.

And we're kind of in the middle of that now. We've not gotten to the binding part. So we'll have to see what comes out of that. I can tell you, generally, the pipelines are full because of the price of gas being driven down by the shale gas. And there are a lot of industrial processes that would like to switch from other fuels to natural gas, and I think we've got to sort out who's really serious about it now as opposed to who answered the first call.

Having said that, I don't -- you're not going to see it be material to SCANA's overall earnings.

Michael Lapides: Got it. You don't view it as a -- there's not a significant rate base opportunity 4 SCANA on the interstate pipeline 5?

Jimmy Addison: That's right, not to the SCANA level. Now, it'll be significant to that subsidiary. But you're talking about a company with less than to $200 million dollars of rate base, so.

Michael Lapides: Understood. Okay. Thanks, Jimmie. Thanks Steve. Much appreciate it.

Operator: Paul Patterson, Glenrock Associates.

Paul Patterson: Just really quick, just a clarification on one of the questions I think Ashar was -- the 1% -- sorry. The sales growth forecasts, what are you guys forecasting now? I'm sorry to -- I didn't get it completely. What is your new retail sales forecast?

Jimmy Addison: Okay. Let me try this one more time. Pardon for not being clear earlier. We have not changed our forecast. We've got a strong quarter to report here in Q1, but our forecast is for about 0.5% decline in 2014 compared to 2013 actual.

Obviously, completely different direction here in Q1, maybe at some point during the year that translates to a different forecast. But we're just not at that point yet, Paul.

Paul Patterson: Okay. And when we look at these rather strong numbers on a weather-adjusted basis, given the fact that the weather was so abnormal this quarter, does that give you any -- does that give you a little less confidence maybe in what these -- with the weather adjustment calculation that you're doing or just does it give you any -- I mean, I know sometimes this is more of an art than a science. I'm just wondering, is that --

because the numbers do seem pretty high, just period. I mean -- or is there something else going on. I mean, 4% --

Jimmy Addison: Yes, I think that's a very fair question as well. So the thing that -- what I would say is, on a positive standpoint, we've had a couple quarters in a row like this now. And Q4 was nowhere near as extreme as this was. I think it was fairly normal, best I recall, from a weather standpoint.

But to your question about is carving out the weather effect an exact science, it absolutely is not. You've got to make two major assumptions in that. And one is, how much of the customer load by class is non-weather-sensitive and how much is weather sensitive. And then for the weather-sensitive part, how much is impacted by the extreme weather that was actually realized.

So absolutely, it's modeled on an assumption basis. Is it precise? It's the best model we have. It's one that the industry obviously is challenged with when it's extremes like this. And that's another reason that I just don't get committed to trends based on one or two quarters.

Paul Patterson: Okay. When do he think that you guys might take another look at sort of your annual forecast? I mean for guidance purposes.

Jimmy Addison: Well, for sure each quarter. But in our business, Q3 is the big quarter. So Q2 is only about 15% of our annual operating plan from an earnings standpoint. So it's highly unlikely that we're going to come along at the end of Q2 and reassess our guidance at that point because so much of it's driven in the third quarter just because of the cyclical nature of the heat in the south.

Paul Patterson: Okay, great. Thanks a lot.

Operator: (Operator Instructions) Jim von Riesemann, CRT Capital.

Jim von Riesemann: I wanted to follow up on one of Michael Lapides' questions and just go off a little bit tangentially there.

How are your coal stockpiles doing right now? And are you having any trouble with rail and transport getting any coal?

Steve Byrne: Well, because we have shuttered a number of coal facilities, our situation's pretty good with the coal stockpiles. Now, we're coming off a period where we had relatively high coal stockpiles, so, perhaps, not a big surprise. There have been some issues with delivery, particularly from rail. And we have the luxury of having port delivery available to us.

And so we will -- we are looking into the possibility of receiving some shipments in through the Port of Charleston. And those go basically right to our Williams Station, so -- which is our largest single unit.

So we will be offsetting some of what -- we may not be able to get via rail by ship receipts.

Jim von Riesemann: Super. That's all I had.

Operator: Neil Kalton, Wells Fargo Securities.

Neil Kalton: Just a quick question. You're off to a good start this year, obviously, with -- some things may be unusual, but with the weather-adjusted sales, if that sustains itself, you guys look like you're on target to do better than what you originally thought.

So my question is, we see a lot of other companies when this occurs pull forward O&M expense and sort of use the cash in that sense. Would that be your intention possibly or would maybe a better path to sort of use the excess cash to invest in your infrastructure needs to reduce the equity that you need with the nuclear generation? So how do he think about that, I guess?

Jimmy Addison: Yes, Neil, I don't see a lot of variation in our O&M plan. We've been very disciplined about our O&M, this cohort of customer service and reliability, and, for example, in the toughest times of the recession, we've maintained our vegetation management, trimming the trees. It helps us really keep good outage records with the customers.

So we've not -- we're not behind. So there's not a lot of bounce back or anything like that we need to do.

Having said that, there's always some judgmental thing that you can move around a little bit on timing of when you deal with them. But I don't see a huge variation in that.

And of course, we've got plenty of capital need, as you referenced there on our expansion, with new nuclear and, obviously, probably use it more for just to defray the needs for debt and equity soon. I would say just kind of moving those things to the right maybe slightly.

But honestly, Neil, I've been waiting six years to start having calls like these last couple of quarters. We really see some confidence in the economy. It's been a tough run, and I'm real encouraged by the economy.

When you started looking at those unemployment rates back on that slide 5 and you see that proxy that we build for our electric operating territory, at just over 4.5%, I mean, you're getting down to functionally full employment there, and that's pretty exciting.

It happens to be that the county our headquarters is based in here has the lowest unemployment in the state, and we're excited about where we're headed.

Neil Kalton: Looks like very good news, and hopefully it sustains throughout the course of the year. Thanks for your response.

Jimmy Addison: Yes, I agree.

Operator: Ashar Khan, Visium.

Ashar Khan: I think it's been kind of answered. My question was regarding the nuclear CapEx delays and impact on equity - it's been answered. Thank you so much.

Operator: Michael Weinstein, UBS.

Michael Weinstein: I just wanted to go back to Stephen's question and just make sure that you guys are still -- that you are, indeed, confident you're still within the 18-month window. I think that was the thrust of his question. I heard you say confident. I just wanted to reiterate that is all.

Steve Byrne: Yes. We may have changed a word on a slide. I'm not sure about that. My review wasn't --

Michael Weinstein: Yes. And that wasn't intentional.

Steve Byrne: -- detailed about that slide. But, yes, we, based on our discussions with the Consortium, we're still confident, at this point in time, in the sting within the PCS-allowed contingency which is plus 18 months.

Michael Weinstein: But when you look at the slide 13 and you see the green box that you guys put in there. That's unchanged from before. So you're -- I mean, since you are awaiting a baseline, would it be fair to say that that green box no longer really applies anymore, that you're simply somewhere in that 18-month window at this point?

Steve Byrne: Yes, until I see something from the Consortium that tells me I'm going to be outside the box, remember that box was a band that was built around, I think it was Q4 of 2017 to Q1 of 2018, and the Consortium had been working to a schedule which was December of 2017.

So it's entirely possible that we could end up still within that green box. So until I find out that I'm not, going to leave it where it is.

Michael Weinstein: Okay. Thank you.

Operator: Dan Jenkins, State of Wisconsin Investment Board.

Dan Jenkins: Good afternoon.

Jimmy Addison: Hello, Dan. No sympathy from you either about the weather, right?

Dan Jenkins: No. No. So when we look at the projects on the nuclear plant that you have laid out on page -- slide 18, are any of those contingent on the other items? So, for example, does, CA-01 have to happen before CA-03, or are they all kind of on parallel tracks?

Steve Byrne: Well, they're all being constructed on a parallel track. But you are correct that CA-03 cannot be set until CA-01 is set. And then we need CA-01 in before I can get containment vessel ring 2 in. And that really is a height limitation on even the world's largest heavy lift derrick. I can't get over two ring sections plus this very big modules at the same time.

So, yes, you are correct that the CA-03 and the containment vessel ring 2 are follow-ons to CA-01. So that's a very important one for us.

Dan Jenkins: Okay. That's all I had. Thank you.

Operator: David Paz, Wolfe Research.

David Paz: I just had a question. Your current guidance and growth rate, does that assume that bonus D&A is not expended beyond 2013?

Jimmy Addison: That's correct. It assumes it -- it's based on current law.

David Paz: Okay. Do he happen to know like how your growth rate would be impacted if it were extended, say another year or two?

Jimmy Addison: David, I don't see it materially impacting our growth rate. I mean, it's in the ballpark of $50 million to $75 million a year in cash. But I just don't see that material enough to impact growth rates of any significance.

Again, that's kind of like the cash from the weather, right, or no, the cash from the economic growth. I mean, to me it just allows you to push a little bit to the right on the planned debt and equity issuances.

David Paz: Got it. And your nuclear construction units aren't considered in service until they come online? I guess, I keep thinking about it from a bonus depreciation law if that were to be extended through your construction period, just how would that impact ultimate rate base?

Jimmy Addison: Yes, no real impact on the nuclear side because, you're exactly right, no depreciation there until they come online.

David Paz: Got it. Great. Thank you.

Operator: Michael Lapides, Goldman Sachs.

Michael Lapides: Just wanted to follow up. This is the first earnings call after the ORS put out their April 1st piece on the project. And one of the things that kind of stands out is some of their commentary about milestones and they had the section that kind of talked about how of the 51 remaining milestones, that like 88% of them have been delayed to some point, and that they've even had to notify the Commission of some that have been delayed more than 10 months.

Can you just talk a little bit about, A, are these milestones that can get things back on track? Or, B, is this just all tied and all part of the bigger, hey, look, we're -- we've had some initial delays, albeit kind of minor, measured in months or even just a quarter or two, and that this will all get kind of wrapped up and resolved when you get the integrated project schedule in the next 6 or 9 months?

Steve Byrne: I think the answer is that when we originally laid out our case to build these plants, so you're going back to hearings we had in 2008, we were required to submit, at that point in time a milestone schedule. That milestone schedule had in it a number of things that were fairly imprecise at that point in time.

So we're talking about a project that was going to be built over 10 years and we have to supply a milestone schedule that had 146, as I recall, milestones, I think 60% of which, or more are completed now. So it was not unusual that some of those milestones would move around.

Now, what we're seeing in the milestones that the Office of Regulatory Staff is concerned with, is that they put out, I guess it's a self-imposed 10 months where they would notify the Public Service Commission of anything over that 10 months. So there are a number of them that are over 10 months.

What we're concerned with is the plus 18 months, because we are considered within our schedule as long as we're within 18 months.

Now, there are a couple that are challenging the 18 months. One of them, I think is that CA-03 set. So a lot of things are dependent on how things go with the modules.

So we continue to come back to even some of these milestone issues are a function of what goes on with the modules. So as long as the Consortium hits their module dates, I think we should be within the 18-month contingency on all of them.

That being said, there are still some challenges that we have outlined in our BLRA quarterly reports, a couple of those are things like we have to clean pumps, squib valves, and while there are plans that are currently being worked to recover those schedules, we need to see them come to fruition before we would say that we're good on those, yet.

So there are some things that may challenge the 18 months. But I don't think any of the ones that are challenging at 18 months are really going to be impacting on the in-service date for the units.

Michael Lapides: Great. And big picture question, hadn't really asked this. What happens if the 18 months slips? Meaning, what, from a regulatory perspective, if the 18 -- if you go beyond the 18-month timeline, what's the process from there?

Steve Byrne: Well, we would file for basically a schedule re-baseline with the Public Service Commission, which would be a full hearing process. And we would outlay what the reason is for the delay. Interveners would have an opportunity to challenge us, and we would go before the commission to say that we want to schedule re-baseline if we go over any of those milestones.

Jimmy Addison: And Michael, we've done that twice before, not because of exceeding the 18 months, but because of the original contingency being removed by the Supreme Court decision. We went through that process twice already for cost items that would have gone against the contingency, and the Commission has endorsed those. And each time they did that, they changed the schedule for the latest information at the time. So it would be the same process again.

Michael Lapides: And as I understand that process when the courts [maybe] will take the contingency out of the initial project, approved project budget, that it wasn't really what you'd call a contentious process. I mean, the Commission kind of looked at it and said understood, and kind of things changed around a little bit and kind of let's go from there.

Jimmy Addison: Yes. Remember when the original Base Load Review Act was approved, it was February 2009, it had in it a contingency fund. And what was challenged to the Supreme Court was not that we would never have to use contingency, what they didn't like was the fact that it was preapproved and up to us as to where we spend it. And their point was, we ought to be held accountable for the contingency and have to come back and ask for more when we run into contingency items. And that's really what the Supreme Court said.

And so we've done that now twice, and the Public Service Commission has approved those each time.

Michael Lapides: Okay. And can you refresh, what was that contingency amount originally? So if there were, if CBI comes back and there are delays or you're beyond the 18 months or just, I don't know, stuff happens with big projects. I'm just trying to think about how if I were a commissioner, I approve the project at X, but because of a court decision it's really X-minus something. And then if you come back and say, hey, look, I kind of need some of that minus, it's still not that much above what I'd originally thought of as the project cost.

Steve Byrne: Yes, the original contingency number, I believe was $438 million. And remember, that was for our 55% share.

Michael Lapides: Got it. Okay, guys. Thank you. Much appreciated.

Operator: Ladies and gentlemen, that will conclude our question-and-answer session. I would like to the conference back over to Jimmy Addison for his closing remarks.

Jimmy Addison: Well, thank you. And to summarize, we're off to a good start in 2014. The weather comes and goes. But I'm particularly encouraged by the economic indicators, especially unemployment rates and the apparent consumer confidence.

We remain on track to meet our internal earnings targets, and our new nuclear construction continues to progress.

And finally, I want to mention our upcoming Analyst Day event to be held in New York on June the 4th. And please mark your calendars and plan to attend either in person or via the Internet.

Thank you for joining us today, and we appreciate your interest in SCANA.

Operator: Ladies and gentlemen, the conference has now concluded. We think you for attending today's presentation. You may now disconnect.

Crosby, Michael

From:	Carter, Lonnie
Sent:	Monday, November 28, 2016 1:08 PM
To:	MARSH, KEVIN B (KMARSH@scana.com)
Subject:	Wednesday's SCE&G/Santee Cooper meeting
Attachments:	Nuclear Timelines--Project Management.docx; Nuclear Timeline-Bankruptcy.docx; Securitization Assessment Nov 28 2016.doc.docx

Kevin,

This letter is sent to assist you in preparation for our meeting on Wednesday (11/30), as both our teams prepare for the joint Board meeting scheduled on December 5. We both share the strong desire to work as a team to see the Summer 2&3 Project successfully completed. This letter is offered in that spirit:

From Santee Cooper's perspective, there are 3 primary items we need to discuss on Wednesday. Candidly, the first two have become items of frustration for Santee Cooper, and have put me in an awkward position with my Board, who are insisting to know why no action has been taken. I asked Santee Cooper's team to prepare timelines which show when the items were raised and discussed. These timelines are written from Santee Cooper's perspective, and perhaps will provide insight to your team.

1. Increased project management expertise in large scale EPC construction.
2. Bankruptcy counsel.
3. Release of the Bechtel Report to the Cooperatives.

Increased project management expertise in large scale EPC construction--We need to be prepared to discuss with our Board, after two years of requests and an affirmative commitment from you on more than one occasion, why this has not yet been done. The attached timeline is illustrative.

The formation of the CORB was SCANA's response to the Betchel Report and Santee Cooper's request for better Project oversight with large EPC experience. Based on the recommendations we heard at both CORB briefings, I am concerned that we learn critical information too late from an outside team that comes in quarterly for a few days, which should have been brought to our attention by our teams. The information we learned last week was very important and key to the effectiveness of our President's Meetings with WEC and Fluor.

As we discussed following the call, we must determine if our teams have the knowledge and expertise to glean this key information. If they do have the knowledge and expertise, then what are the reasons the information does not reach us? If they do not have the knowledge and expertise, what can be done to staff in such a manner to have this information available in a timely manner? I recommend that we move quickly to act on the CORB's recommendations and set specific timeframes for our team to implement.

Bankruptcy counsel—Bankruptcy expertise would significantly inform our team as we negotiate with WEC going forward. Our separate, collective and independent analysis suggests that the fixed price option offered by WEC is likely significantly less than the cost WEC will incur to complete the Project. This is the very reason that we selected the fixed price. Regrettably, we must anticipate WEC having financial difficulty completing the Project, particularly in a timely manner. We should consider all options available to us that will insure WEC lives up to our Agreement. Our strategies should contemplate potential bankruptcies for both WEC and Toshiba. Toshiba's weakened financial condition is an unfortunate development as WEC's guarantor that we must also consider.

After no action on our repeated requests on this topic, as indicated in the attached timeline, I asked our legal team to find bankruptcy counsel. When we advised the SCANA team of this and our recommendation, no response has been received. This issue is of such concern to the Santee Cooper Board (as the timeline shows this was brought up at our first joint Board meeting) that I further asked our legal team to conduct an assessment of the securitization of the Project in the event WEC is unable to finish. This is something that would typically be undertaken by counsel with bankruptcy expertise. The securitization assessment is attached for your benefit. We will be prepared to discuss it further on Wednesday.

Release of the Bechtel Report to the Cooperatives—We are backed into a corner on this. Our largest customer, having learned of it through intervention in SCE&G's fixed price petition, demands a copy of the report. Our requests to your legal team to put some parameters around the disclosure has been met with the response that we should not release it. Not releasing this information will likely bring formal requests that will be an untenable position for both our companies.

We look forward to our discussion on Wednesday.

Thanks,
Lonnie

Nuclear Timeline—Additional Project Management Request

For well over two years, the Santee Cooper Board and management team have been pressing SCANA to substantially enhance the construction project management team by repeated direct requests, through the Bechtel analysis, and via the CORB process, as indicated by the timeline below.

Timeline: Project Management

May 2014: **Roll-up Letter** - Shortly after sending the May 2014 roll-up letter to WEC receiving the $1B EAC (Aug), Santee Cooper began discussions with SCE&G executives to engage outside assistance with management of the EPC contract.

Sep 3, 2014: **Marsh email to Carter (September 3, 2014 at 2:06:00 PM EDT) …**

"We are ready to move forward with hiring/engaging an additional resource with significant construction expertise to assist us with evaluating the construction schedule and project status. I believe having this person on our staff vs. working as a consultant will avoid conflicts with the consortium on proprietary matters."

Feb 17, 2015: **SCANA Meeting (Timmerman's old office)** - Marsh, Byrne, Carter, Watson, Crosby) - Santee Cooper suggests Bechtel for project review, providing SCANA with a project assessment proposal to assist in identifying areas for improvement.

Apr 7, 2015: **Bechtel Meeting (SCANA Hangar)** - Team Marsh, Team Carter, & Bechtel – Bechtel introduces its nuclear team and presents assessment proposal. Kevin agrees to seek SCANA Board approval to go forward with an assessment.

Apr - Aug: **SCANA and Santee Cooper Board approvals received** - to move forward with a Bechtel project assessment.

Aug 10, 2015: **Bechtel Assessment** – finally begins. Much time lost April through July getting Roderick & Asherman engaged and NDAs and PO in place. To push forward, Santee Cooper made the Bechtel assessment a "requirement" to proceed with the (stalled) negotiations that eventually led to CB&I exiting the Project.

Aug – Oct: **Bechtel Calls** – Craig Albert holds weekly calls with Marsh & Carter. SCANA NND project leadership has limited involvement in the assessment. Cherry steps up to lead effort on behalf of Owners. Cherry engages Archie in a daily effort to force WEC (Benjamin / Roderick) to release engineering & schedule documents. Carl Rau & Roderick eventually have a heated email exchange. Documents are finally released to a reading room only - the assessment effort is a challenge.

Oct 22, 2015: **Bechtel Meeting (SCANA HQ)** – Bechtel executive level report-out of project assessment, findings, and high-level recommendations. Bechtel promises a final report in 2–3 weeks. SCANA management expresses hesitation, routes assessment through legal department, indicates concern Bechtel's objective is to seek a long-term engagement on the Project.

Nov 12, 2015: **Bechtel Assessment Report – issued to George Wenick** - Weeks go by with Wenick/Bechtel wrangling over Wenick's rejection of initial report, redactions, timeline removal, critique of project management. Baxley, Pelcher, Lindsay, and Bynum meet with Wenick (in Atlanta) for a review and final disposition of report.

Feb 5, 2016: **Bechtel Project Assessment Report** – Numbered copies of final report released to Santee Cooper by SCANA.

Mar 4, 2016: **Santee Cooper Recommendations** – Five formal recommendations forwarded to Marsh:

1. Construction Milestone Payment Schedule
2. Project Evaluation and Assessment by Owners
3. Quarterly Meetings with Toshiba / WEC / Fluor
4. Evaluation of Fixed Price Option
5. Professional Oversight of EPC Agreement

Mar 7, 2016: **SCANA Meeting (Kevin's conference room) –** Marsh, Byrne, Archie, Lindsay, Bynum, Team Carter – group discusses Bechtel Report and Santee Cooper formal recommendations. Carter praises SCANAs project management team for its operations experience and ability to work well with NRC, but expresses concern over inability to hold Consortium accountable.

Marsh agrees to have the SCANA and Santee Cooper teams study the Bechtel Report, agree on actionable recommendations. Marsh agrees to add EPC resources to his team to fill any gaps/needs identified.

Marsh, Byrne & Archie float Construction Oversight Review Board (CORB) approach as a possible resource solution … same was being used at Vogtle.

CMPS – at Santee Cooper's request, Marsh agrees to hire Bechtel (Jason Moore) on a limited scope basis to assist team in development of the CMPS. Action assigned to Archie. Archie first attempts to hire Jason Moore as an independent contractor. Subsequently, Craig Albert instructs his staff to move on.

Mar 11, 2016: **CEO Meeting (Columbia) -** Marsh, Harold Stowe, Carter, Leighton Lord – meet to discuss Santee Cooper's formal recommendations and expectations of SCANA for the planned Mar 21 Joint Board meeting.

Mar 18, 2016: **Marsh email to Carter (March 18, 2016 at 8:25:34 AM EDT)** … pertinent excerpts provided below:

"Our team is looking forward to meeting with the Santee Board next Monday …"

"We appreciate the effort behind the recommendations provided to us regarding your views on project issues. We have carefully considered your concerns and, as we discussed in our meeting last week, we appear to be in alignment on the first four. We agree in principle with the concern expressed in Item 5 related to additional oversight of the project and have a plan of action that we believe will address the issue appropriately. Our first step in this regard is to staff a Construction Oversight Board.

"Next we would seek an appropriate number of experienced EPC, and/or large construction project personnel to add to the new nuclear team. These individuals would be available to assist the current Project Management Office team and site leadership in assessing and addressing issues arising during construction. I am confident that the number and specific type of personnel needed in this capacity will be informed by the work of our teams who are currently summarizing a list of recommendations for the project going forward. We expect these teams to complete their work and provide a report to senior management by the end of April."

Mar 21, 2016: **Joint Board Meeting 1 (Columbia Hilton)** – discussed Bechtel Report, Santee Cooper March 3 formal recommendations and SCANAs plan forward to address issues.
Marsh committed that SCANA and Santee Cooper would work to identify actionable Bechtel recommendations, SCANA would add EPC experts to its team, and that SCANA would charter a V.C. Summer Construction Oversight Review Board to help SCANA with project execution.

Apr 7, 2016: **SCANA feedback on Bechtel Assessment** – Cherry and Crosby meet with Archie and Bynum. In response to Marsh's request for the teams to work on the Bechtel assessment recommendations, Bynum gave Santee Cooper a spreadsheet containing SCANA feedback from several members of the NND project management team. Brad Stokes (SCANA Manager of Engineering) had not been a part of the Bechtel assessment review effort, even though many issues tied to engineering were impeding progress on the Project.

Apr 15, 2016: **Santee Cooper feedback on Bechtel Assessment** – Also in response to Marsh's request for the teams to work together on the Bechtel assessment, Santee Cooper forwarded Archie and Bynum Santee Cooper's formal review of the Bechtel assessment which included a cross-reference to SCANAs feedback. Santee Cooper's feedback was consistent with its Mar 3rd recommendations calling for the addition of EPC expert resources to assist SCANA project management with executing Bechtel recommendations on engineering, procurement, project controls & scheduling.
Archie called Crosby and Byrne emailed Crosby a few days later and confirmed that they had received and reviewed Santee Cooper's feedback … and that the teams were in agreement.

May 19, 2016: **SCANA meeting – CMPS & Bechtel Assessment** – Marsh, Byrne, Archie, Carter, Crosby, Cherry meet.

CMPS: WECs front-end loaded CMPS discussed in detail. Santee Cooper again requested SCANA seek outside expertise to assist Owners with this issue.

Bechtel Assessment: Due to the progress WEC & Fluor appear to be making on procurement issues – Santee Cooper agreed to narrow the focus of the Bechtel recommendations to only engineering issues.

Jun 17, 2016: **Santee Cooper Board Meeting (Wampee)** – Fixed Price Option formally introduced to the Santee Cooper Board. .

Jun 18, 2016: **Crosby email to Archie (June 18, 2016 10:50 AM EDT)** – Marsh, Carter and Byrne were copied … pertinent excerpts provided.

"Yesterday, Marion brought me the attached document that you gave him Thursday on the Project Assessment Report…. SCANAs recommendation, and apparent next step, is to perform (another) 3rd party assessment on how to make things better…..I am not supportive of just another 3rd party assessment. The assessment completed Q3 2015, at a cost of $1M, was sufficient for Santee Cooper to recognize the need to on-board experts help to work on key issues and improve the management of the Project." No response was received.

Jun 20, 2016: **Joint Board Meeting 2 (Nexsen Pruet)**

Fixed Price Option: SCANA presents its analysis of the Fixed Price Option.

CORB: Peggy Pinnell (Santee Cooper Director) reminds Archie of his commitment in the Mar 21 joint meeting to get the CORB established as soon as possible. Archie recommits to getting the CORB established by Jul 20.

Aug 2016: **CORB Review #1** – The Construction Oversight Review Board held its first review in Jul & Aug. The initial review provided for a high-level review of the project schedule, construction, construction to startup turnover planning, engineering, startup, project management, procurement, document control, vendor supplied equipment, and component testing. An executive level exit meeting was held on Aug 18 – primary takeaways follow:

- Schedule has too many activities (238K vs 60K at Watts Bar 2)
- Subcontracts are not in schedule
- Engineering is impeding construction
- Engineering not in schedule – being handled by lists
- Project Management – must get aggressive to hold EPC accountable. Team will not make it without some help

CORB Chairman (Skaggs) promised final report in 2 weeks.

Sep 16, 2016: **Draft CORB Report #1** – received from SCANA after Carter discussed with Marsh that the report was past due. Report was in-house SCANA and being reviewed by Archie. Bynum forwarded a copy to Baxley and reminded Santee Cooper the report was confidential.

Oct 13, 2016: **SCANA action on CORB Report #1** – Williams requests an update from Archie on Oct 5. Jones forwards a report on Oct 13. The information received was primarily a report on what WEC & Fluor are doing to address CORB recommendations on schedule, engineering, project metrics, etc.

Conclusion: SCANAs project management team has many areas of strength (nuclear safety culture, operations, NRC management) but does not have the comprehensive skills and depth of experience necessary in engineering, scheduling, project controls and construction to manage a large new build project laced with complexities. Those complexities being (1) a first of a kind nuclear technology (2) being deployed by an over-extended equipment manufacturer (Westinghouse), (3) backed by an incompetent engineering firm responsible for project integration (Stone & Webster now WECTEC), and (4) a Contractor that has been disingenuous on multiple issues. The Project would be greatly benefitted by infusing the current project management team with a framework of qualified EPC managers charged with working collaboratively with the Owner and Consortium to identify areas for improvement, suggest proven solutions, and to provide an independent perspective on actual progress – the effort aimed at increasing the accountability of the Consortium and the success of the Project. After three years of project delays, and now another five months of Unit 2 delay realized in 2016 – there should be no shame in reaching out for qualified assistance.

Nuclear Timeline—Project Bankruptcy Counsel

Beginning with the precipitous decline of Toshiba's credit rating and financial strength, the Santee Cooper Board and management team have been requesting that SCANA retain bankruptcy counsel for the project. The following timeline is illustrative:

Timeline: Bankruptcy Counsel

April 2015: Toshiba announces accounting scandal.

July 21, 2015: Toshiba senior executives and Board of Directors resign.

Dec 22, 2015: Moody's reduces Toshiba long term bond rating to junk status.

Mar 2016: Santee Cooper approaches Nelson Mullins bankruptcy counsel about Project, conflicts check shows WEC is a client of Nelson Mullins in some capacity.

Mar 21, 2016: **Joint Board Meeting 1 (Columbia Hilton)** – Boards discussed declining financial condition of Toshiba and what financial response the Owners should make to poor project progress. Owners' counsel met with George Wenick that afternoon and Santee Cooper requested that bankruptcy counsel be retained for the Project as a proactive measure given Toshiba's and potentially WEC's financial condition.

Apr 4, 2016: **Pelcher email to Bynum (April 4, 2016 4:01 PM EDT)** – pertinent excerpt

"... has SCE&G secured a project bankruptcy attorney to help us think through how Toshiba's financial difficulties might impact Westinghouse and ultimately us? You may recall this is a topic we discussed during our Mar 21 (post board meeting) nuclear attorneys meeting ..."

Jun 7, 2016: **Crosby email to Byrne (June 07, 2016 6:03 PM EDT)** – pertinent excerpts

"... Lonnie asked me to forward you and Kevin a proposed agenda for the joint meeting on the 20th. Here is what I have so far ... welcome your comments.

1. Fixed Price Option
    a. SCANA analysis – presentation
    b. PSC Testimony – any comments that can be shared
    c. Draft SCANA letter to Santee Cooper – recommending FPO
    d. Potential Bankruptcy – outside legal opinion & plan to address"

Jun 16, 2016: **Marsh email to Carter (June 16, 2016, at 3:39 PM)** - pertinent excerpts

"Based on our internal discussions, we propose an agenda as follows:

1. Follow-up on issues from our last joint meeting;
2. Consideration of the fixed price option; and
3. Update on the milestone schedule/Dispute Resolution Board (DRB) issue"

"Through a number of emails I have seen other topics that your board may want to discuss. We are prepared to do that, but we believe that such a discussion should occur when we have more time. Issues, such as the potential bankruptcy of Toshiba or Westinghouse are critical, but would prefer to have some detailed discussions and debate within our project teams before making a formal presentation to either of our boards."

Jun 16, 2016: **Carter email to Marsh (Jun 16, 2016, 7:20 PM)** – pertinent excerpts

"… Finally, I agree with you that further staff level discussion on the ramifications of a Toshiba or Westinghouse bankruptcy would be useful and should precede any formal presentations to our boards on this matter. With that said, the possibility of such a bankruptcy cannot be entirely divorced from our joint board discussions on Monday. For example, Item No. 2 on your agenda relating to the fixed price option obviously shifts risk away from the Owners and to Toshiba/Westinghouse, making their credit worthiness all the more important. Similarly, with respect to Item No. 3, getting the milestone payment schedule right will make it less likely that Westinghouse view as desirable a strategic Chapter 11 bankruptcy to rid itself of uneconomical executory contract."

Jun 17, 2016: **Carter email to Marsh (June 17, 2016 5:12 PM)** – pertinent excerpts

"At today's Santee Cooper Board meeting several questions regarding the implications of a Toshiba bankruptcy came up. Some we could address others not. I would anticipate similar questions Monday….."

Jun 23, 2016: **Pelcher email to Bynum (June 23, 2016, at 5:12 PM)** – pertinent excerpts

" … Al. one of my notes from Monday's Joint SCANA/Santee Cooper Board Meeting in Columbia was an interest by members of the respective boards in retaining project bankruptcy counsel to provide strategic advice on the challenges associated with Toshiba's financial difficulties arising out of last year's accounting scandal and the risk that posed to the Owners and the project.

"As I understood the discussion from Monday, our joint boards had an interest in retaining as project counsel someone who would be able to represent us both now and in the event of a bankruptcy without having to get a waiver from Westinghouse or Toshiba. My notes indicate that you tasked George Wenick to identify potential project bankruptcy counsel for this purpose."

"One more thing - - and just speaking for myself - - in the penultimate paragraph of his June 16, 2016, at 3:39 PM Email, below, Kevin Marsh advanced the idea of possibly making a "formal presentation" to our boards on the bankruptcy/insolvency issue after some further analysis/discussion among staffs of SCE&G and Santee Cooper. Given the demonstrated interest in this issue by our board, I think this is a very good idea."

"I would think that the content of such a board presentation would be informed not only by the analysis of the project bankruptcy attorney we eventually (hopefully very soon) retain, but also by a more granular understanding of Toshiba's and Westinghouse's financial situation. Although as a Japanese company the particulars of Toshiba's financial situation might be a bit opaque to us over here, I would think that there would be resources availability to allow us to develop a better picture of its situation and prospects."

Jun 24, 2016: **Bynum email to Pelcher (June 24, 2016 1:53 PM)** – pertinent excerpt

"Ron and I talked to George yesterday about adding bankruptcy support. He is looking for candidates. We are likely comfortable with whoever he suggests"

Jun 30, 2016: **Pelcher email to Bynum (June 30, 2016 11:41 AM)** – pertinent excerpt

Al: Following Up on our Email Exchange of late last week on bankruptcy counsel, and anticipating that this issue might be raised by one of our board members in connection with today's meeting, has any progress been made in securing project bankruptcy counsel? As you may remember, the issue of WEC/Toshiba bankruptcy/insolvency was on the mind of several of our board members during the June 20th Joint Meeting."

Jun 30, 2016: **Bynum email to Pelcher (June 30, 2016 2:59 PM)** – pertinent excerpt

"George will have to answer your bankruptcy question – we delegated that to him"

Aug 19, 2016: **Pelcher email to Bynum (August 19, 2016 8:43 AM)** – pertinent excerpt

"Al: As you may know, the Santee Cooper meeting on Monday, August 22nd. There will be the now normal update on V.C. Summer Units 2 and 3 in Executive Session. I will be on hand to answer questions of a legal variety that may arrive. "

"QUESTION: If asked by a board member in Executive Session about the status of securing project bankruptcy counsel, what should I tell them?"

Sep 28, 2016: **Pelcher email to Wenick / Bynum (September 28, 2016 2:20 PM)** – pertinent excerpts

"George/Al: I was on the Executive Floor today and a question came up about whether George has made any progress in identifying a project bankruptcy counsel? You may recall, that this is a matter that our joint boards discussed during their June 20th meeting. I have pasted below for your convenience prior Email on this matter."

"The next Santee Cooper Board meeting is scheduled for October 14th and I anticipate this issue coming up at that time."

Oct 24, 2016 **Carter and Baxley travel to New York and** meet with Dentons, LLC attorneys regarding project bankruptcy counsel.

Oct 25, 2016 **Carter letter to Marsh:**

During the June 20 joint meeting, members of both our Boards expressed concern about the financial difficulties being faced by Toshiba Corporation and Westinghouse Electric Company and how those problems could possibly impact the timely and successful completion of the project. One action item that SCANA agreed to take on was securing Project Bankruptcy Counsel who would help us think through Toshiba/Westinghouse insolvency scenarios so that we might begin planning now on how mitigate the impact of such an unfortunate possibility. Indeed, in a June 16, 2016 email to me, you expressed the very same concerns describing "the potential bankruptcy of Toshiba or Westinghouse [as] critical" but expressing the "prefer[ence] to have some detailed discussions and debate within our project teams before making a formal presentation to either of our Boards." The time for that formal presentation to the Board has arrived.

Oct 28, 2016 **Email from Baxley to Marsh and SCANA legal team:**

I'm pleased to report that this week we have located bankruptcy counsel for the nuclear construction project. Stuart Caplan of Dentons New York office has assembled an energy/large construction group with whom we met this week. Stu is well known to Santee Cooper and has represented us in multiple issues over three decades. He is assisted by Farrington Yates who focuses on large scale construction bankruptcies representing creditors. The third member of the team is a large construction project risk avoidance specialist who has litigated the aftermath of multiple mega projects and personally knows at least one of our DRB—John Hinchey—and made several accurate observations about his personality.

No reply received from any recipient.

Confidential/Proprietary/Attorney Work Product

EPC Securitization Assessment

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Respectfully Submitted,

Nuclear Project Securitization Team

J. Michael Baxley
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November 28, 2016